# Background

In 1955, the Office of Management and Budget (OMB) implemented a policy known as the Commercial Activities (CA) Program [10 through 14].[4] This program enables the private sector to compete with government organizations in providing goods and services when it is appropriate and economical to do so. The objective is to promote an efficient support structure through competition.

As part of the program, DoD (and each service) must inventory all commercial type functions performed within DoD. For each function at each installation, DoD must:

- Allow the private sector to compete for the work or
- Give a compelling reason why this is not feasible.

DoD can choose the type of competition it uses for the CA program, as long as it follows the guidelines in Circular A-76. The guidelines depend on activity size and are set so that smaller activities require less formal procedures and fewer reporting requirements. The specific guidelines include the following:

- If an activity has more than 45 civilians, DoD is required to perform a formal-comprehensive A-76 cost comparison before contracting out the work.[5]
- If an activity has between 11 and 45 civilians, DoD is required to perform a simplified cost comparison.

4. In 1955, the issuing organization was known as the Bureau of the Budget.

5. There are exceptions described in DoD Instruction 4100.33. Some of these guidelines were changed in the 1996 revision of Circular A-76.

- If a function has fewer than 11 civilians, the commanding officer may decide to directly convert the work to contractor performance.

Often, even the small functions are (by choice) competed as comprehensive A-76 cost comparisons. This decision may be made by the local commanding officer to avoid disputes, directed by DoD policies, or directed by Congress in the DoD appropriations bill.

As a result of the CA program, DoD initiated 4,311 A-76 competitions from 1978 to 1994 and completed 2,195 competitions. It also initiated 807 simplified cost comparisons or direct conversions. These competitions covered CA functions which are commonly performed in the private sector. This paper will focus on the results of the comprehensive A-76 cost competitions.

## The A-76 process

Figure 1 depicts the process of examining a commercial activity for a comprehensive competition.[6]

The CA function is examined and one of four decisions is made:

- Initiate a full comprehensive A-76 competition
- Initiate a simplified cost comparison or direct conversion
- Initiate a non-A-76 outsourcing or efficiency drill
- Completely stop consideration of function.

In a full cost comparison A-76 competition, the study is either completed, consolidated, broken into smaller studies (broken out), or canceled (figure 1). In the completed studies, the function is either contracted out or retained in-house. The studies that are broken out or consolidated are rebundled to be examined as CA studies at a later time.[7]

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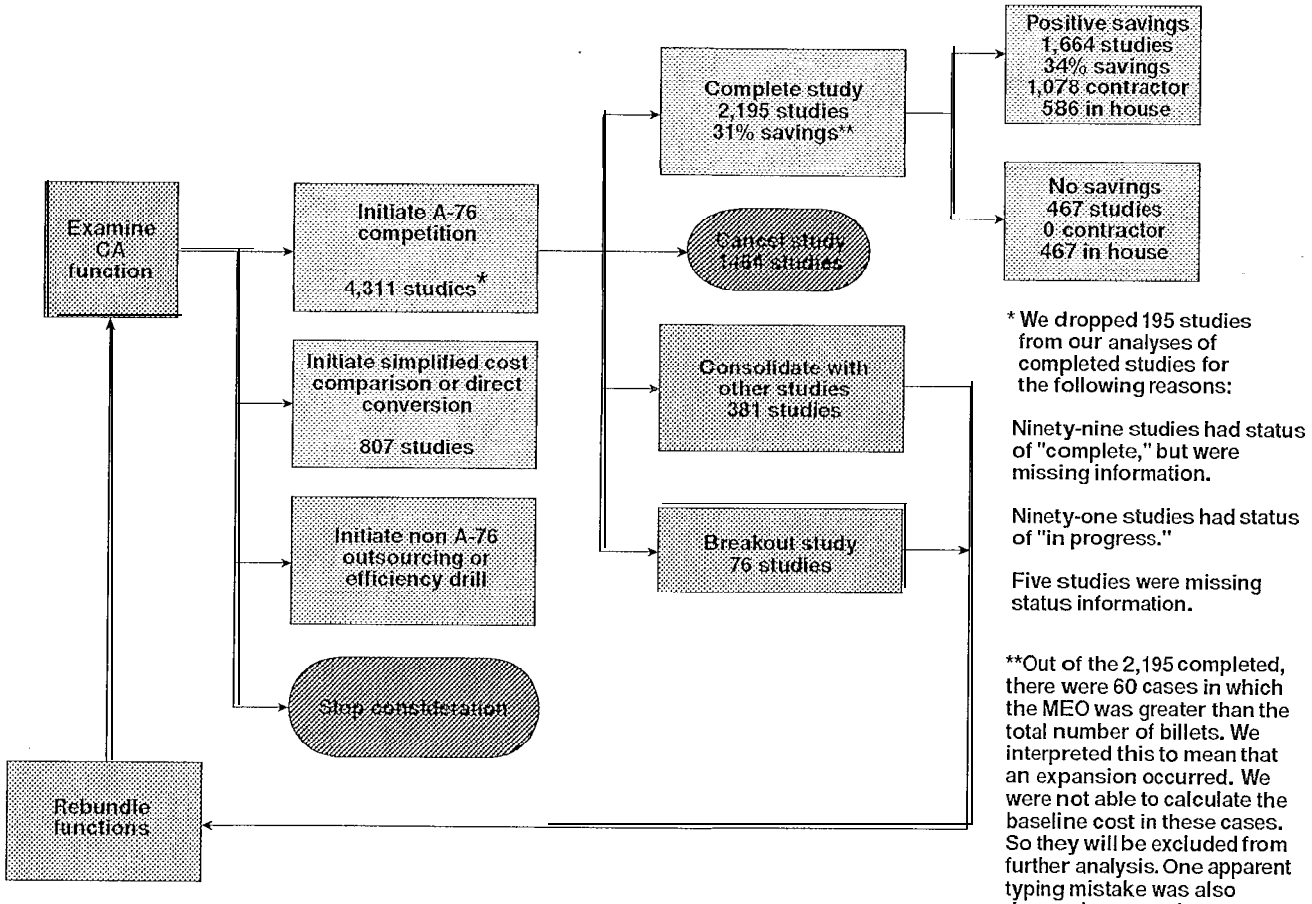
6. Our data source is the 1978 to 1994 DoD CA Competition data. The savings are based on our estimate explained later.

7. We considered these rebundled studies to be false starts rather than cancellations and dropped them from further analysis. See [8] for a summary of the rebundled studies.

Figure 1. The comprehensive A-76 competition process




* We dropped 195 studies from our analyses of completed studies for the following reasons:

Ninety-nine studies had status of "complete," but were missing information.

Ninety-one studies had status of "in progress."

Five studies were missing status information.

**Out of the 2,195 completed, there were 60 cases in which the MEO was greater than the total number of billets. We interpreted this to mean that an expansion occurred. We were not able to calculate the baseline cost in these cases. So they will be excluded from further analysis. One apparent typing mistake was also dropped as were three cases in which the contractor won; but the contractor's bid was larger than the in-house bid.

## Steps in an A-76 competition

The actual completion of an A-76 study has many steps including:

1. Making an announcement to Congress of the intended study.
2. Writing a Performance Work Statement (PWS).
3. Creating an in-house bid (including an MEO).
4. Soliciting contractor bids.
5. Comparing bids and deciding on a winner.[8]
6. Transitioning to the MEO or to contractor performance. (This may require changes in personnel and/or shifting money from one budget account to another.)

A representative A-76 study would take about 2 years, but some have taken as long as 8 years to complete.

## Savings from previous A-76 competitions

### Savings by military service

Annual savings are calculated as the difference between the baseline cost of performing the function in-house and the winning bid. The baseline costs are estimated by assuming that the difference between the baseline costs and the in-house bids is proportional to the change in personnel from the baseline to the MEO—"most efficient organization." For example, if the MEO uses 20 percent fewer personnel than the baseline, then the baseline costs are assumed to be 25 percent greater than the in-house bid. For easy interpretation, all savings were converted to annual FY 1996 dollars.

Table 1 summarizes the results of past completed A-76 competitions. It shows that on average DoD has seen a 31-percent savings for all

8. Virtually all of the A-76 competitions during this time period were decided on a cost basis (lowest bidder wins). The in-house team is given a lo-percent cost advantage-meaning that a contractor must bid at least 10 percent less than the in-house team to win.

comprehensive cost competitions between 1978 and 1994. More than 82,000 billets[9] have been competed. Overall, nearly 80 percent of the billets competed were civilian. The total savings from these competitions amounts to about $1.5 billion annually.

Table 1. Summary of savings from A-76 competitions by military service

| Military service or agency | Completed competitions | Contractor wins | Baseline civilians | Baseline military | Annual[a] savings | Percentage savings |
|---|---|---|---|---|---|---|
| DoD agencies | 54 | 54% | 1,566 | 5 | 17 | 2 2% |
| Army | 466 | 48% | 21,530 | 3,728 | 443 | 28% |
| Air Force | 760 | 60% | 18,147 | 8,633 | 571 | 36% |
| Marine Corps | 44 | 41% | 1,291 | 157 | 25 | 31% |
| Navy | 807 | 43% | 20,793 | 4,821 | 413 | 30% |
| Total | 2,131 | 51% | 63,327 | 17,344 | 1,470 | 31% |

a. In millions of FY 1996 dollars.

The in-house team won about half the competitions. Assuming that the cost comparisons are done accurately, this means that competition produces the savings and not outsourcing per se.[10]

## Difference in bids

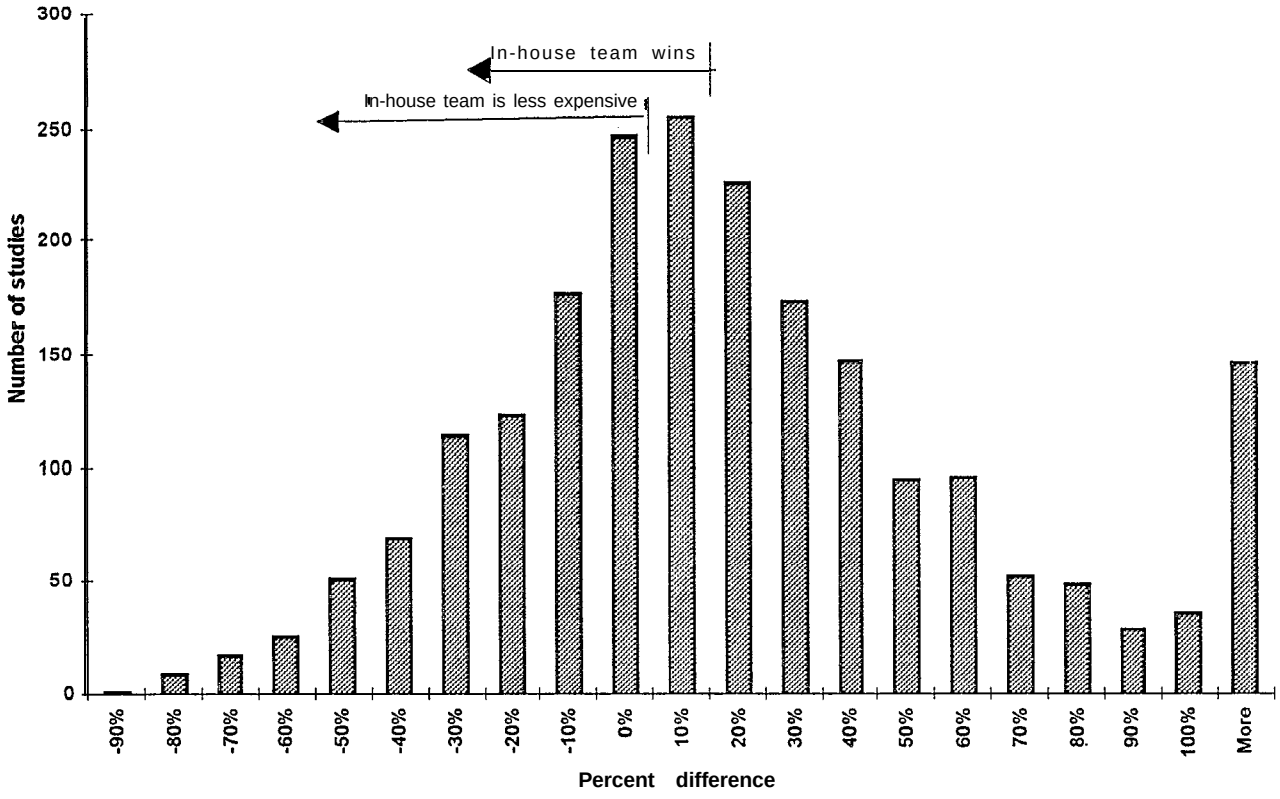
Figure 2 also shows that the in-house bid is often lower than the contractor bid. This histogram shows the percentage difference between the in-house bid and the lowest contractor bid. Each category displays the number of competitions that had a difference in bids between the last category and up to the displayed percentage. For example the height of the bar at -10 percent is the number of competitions with a difference in bids greater than -20 percent but less than or equal to -10 percent.

9. The term "billets" is used generically to refer to military or civilian jobs (spaces).

10. See [15] for a discussion of leveling the field for A-76 cost comparisons.

In all the competitions that are listed at a negative percent difference, the contractor is more expensive. In all cases when the percent difference is greater than zero, the in-house team is more expensive. Even though the in-house team is more expensive between the zero and 10-percent difference categories, it still wins due to the advantage given to the in-house team. Over 57 percent of the competitions fell between 40 percent and negative 10 percent.

**Figure 2. Differences in bids between in-house and lowest contractor**



## Savings by size

Table 2 shows the large number of small studies. Size is measured by the total number of billets. It also shows a decreasing completion rate as the size of a study increases. The percentage of studies with no savings declines dramatically as the size increases. It does appear that the contractor is more likely to win, but the trend in not consistent. Savings per billet also follow no clear trend in this table.

Table 2 Summary of savings from A-76 competitions by size[a]

| Size | Total studies | Percent military | Completion rate | Percent contract wins | Percent with 0 savings | Savings per billet |
|---|---|---|---|---|---|---|
| 1 to10 | 858 | 11% | 0.63 | 42% | 37% | 16 |
| 11 to 45 | 908 | 11% | 0.60 | 57% | 14% | 17 |
| 46to 75 | 141 | 12% | 0.54 | 52% | 9% | 16 |
| 76 to 100 | 66 | 14% | 0.68 | 65% | 3% | 17 |
| 101 to 150 | 57 | 17% | 0.47 | 47% | 4% | 19 |
| 151to 200 | 34 | 12% | 0.52 | 47% | 9% | 17 |
| 201 to 250 | 21 | 22% | 0.50 | 62% | 5% | 33 |
| 251 to 300 | 13 | 29% | 0.45 | 62% | 0% | 15 |
| More than 300 | 33 | 42% | 0.43 | 73% | 0% | 18 |
| Total | 2,131 | 21% | 0.59 | 51% | 22% | 18 |

a. Savings/billet are in thousands of FY 1996 dollars per billet

Competitions can be for one or more functions. Approximately 15 percent are for two or more functions. Table 3 shows the relationship between savings and size for the subset of studies with only one function (the remaining studies are a bundle of two or more functions). The percent savings increases noticeably as the size of the function increases. The savings per billet are also larger.

## Savings by function group

Table 4 shows there are large differences in both the savings and completion rates across function groups. For example, Training had a much lower completion rate than average, but about average savings for the studies that were completed.

**Table 3. Savings by size for single function studies**[a]

| Size | Total studies | Single-function studies: Percent military | Single-function studies: Percent savings | Single-function studies: Savings/billet |
|---|---|---|---|---|
| 1 to10 | 796 | 1 1% | 2 2% | 16 |
| **11 to30** | **633** | **1 1%** | **29%** | **18** |
| 31 to 45 | 142 | 9 % | 3 2% | 18 |
| 46 to 75 | 94 | 11% | 30% | 15 |
| 76 to 100 | 42 | 1 7% | 34% | 17 |
| 101 to 200 | 36 | 25% | 42% | 23 |
| **More than 201** | 31 | 46% | 41 % | 24 |
| Total | 1,774 | 23% | 34% | 20 |

a. Savings/billet are in thousands of FY 1996 dollars per billet.

Table 4. Summary of savings from A-76 competitions **by** function group[a]

| Function group | Total studies | Percent military | Completion rate | Percent contract wins | Percent with 0 savings | Savings per billet |
|---|---|---|---|---|---|---|
| Social Services | 234 | 1 2 % | 0.62 | 79% | 1 5% | **16** |
| Health | 31 | 1 9% | 0.27 | 23% | 42% | 8 |
| Intermediate Maintenance | 162 | 46% | 0.66 | 59% | 23% | 18 |
| Depot Maintenance | 9 | 0% | 0.29 | 0% | 33% | 9 |
| **BOS Multifunction** | 28 | 1 0% | 0.67 | 43% | 0 % | 13 |
| RDT&E **Support** | **12** | 76% | 0.41 | 75% | 8 % | 69 |
| **Installation Services** | 645 | 1 0% | 0.69 | 46% | 26% | 19 |
| Other Nonmanufacturing | **585** | **23%** | **0.57** | **43%** | **21%** | **17** |
| **Training** | 8 | 92% | 0.14 | 50% | 0 % | 17 |
| ADP | 95 | 1 4% | 0.36 | 43 % | 34% | 11 |
| Manufac and Fabrication | 2 | 0 % | 0.11 | 100% | 0 % | 11 |
| **RPM** | **320** | **8%** | **0.71** | **54%** | **18%** | 20 |
| Total | 2,131 | 21% | 0.59 | 51% | 22% | **18** |

a. Savings/billet are in thousands of FY 1996 dollars per billet.

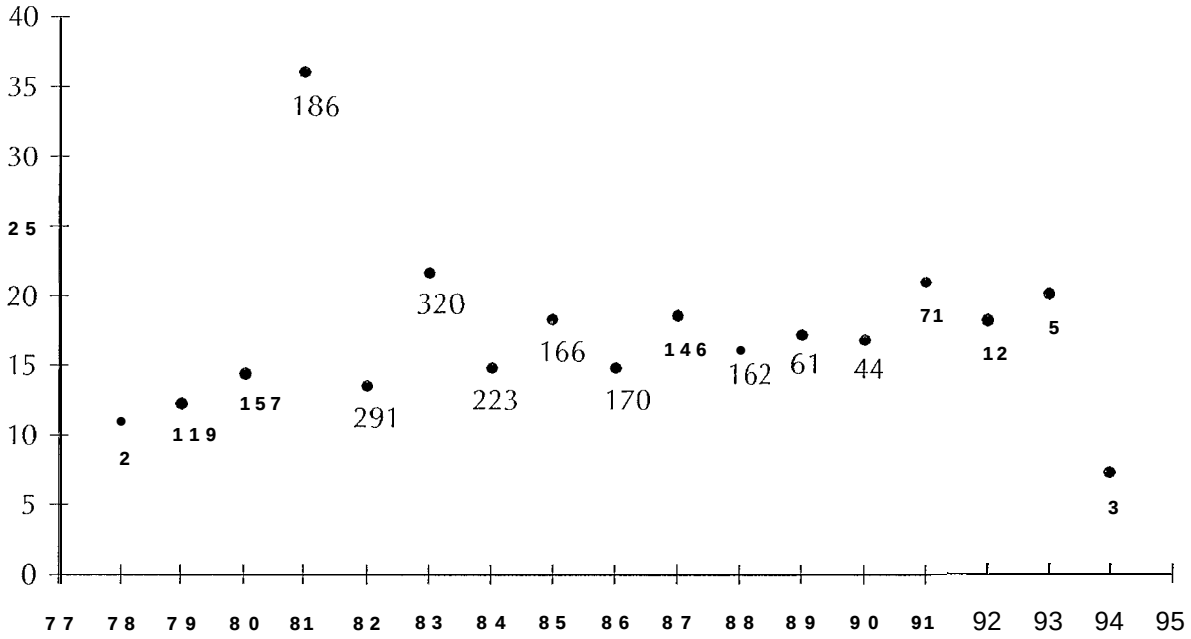
## Savings over time

Figure 3 shows the change in savings and number of competitions over time. The number of competitions starts out small at 2 competitions in 1978, then increases to 320 competitions in 1983. After 1983, the number of competitions slowly declines to 162 in 1988. After 1988, the number of competitions drops abruptly to 61 in 1989 and continues to drop to 3 in 1994.

Two policy changes may explain the majority of the reduction in CA studies in the early 1990s. First, in 1990 installation commanders obtained the authority to exempt functions from competitions and to cancel studies with greater discretion. Second, Congress imposed a moratorium in 1992 that required the studies to be finished in a timely manner or be canceled.

Figure 3 shows the savings per billet over time. The savings per billet is usually between $10,000 and $20,000. FY 1994 is low but represents only three competitions. There is no evidence that the savings per billet was decreasing over time as would be predicted if DoD had been "cherry picking" the functions with the most savings to compete first.

Figure 3. Savings per billet over time in FY 1996 dollars"




a. The numbers under the data points correspond to the number of competitions that particular year.